INSTRUCTIONS
OFFICE SPACE CONVERSION INITIATIVE

SUBMISSION REQUIREMENTS

Due Dates. Applications may be submitted at any time. For the first nine months of the State's fiscal year, applications will only be accepted for that fiscal year and must be able to receive commitments for all funding in that fiscal year. Beginning on the first day of April (the tenth month of the fiscal year), applications may be made for the next fiscal year as well. Again, projects must receive commitments for all funding in that fiscal year. Applications will be date stamped upon receipt and awards will be made to those projects meeting threshold requirements on a first-come/first-served basis.

In order to ensure the opportunity for all local jurisdictions to participate in the Initiative, projects in any single local jurisdiction may receive up to two-thirds of Initiative funds per fiscal year. On April 1, of any year, if there are insufficient applications from other jurisdictions to use the remaining available funds by the end of the fiscal year, the remaining Initiative funds may be awarded to projects regardless of location.

Form of submissions. All applications must be submitted by the local jurisdiction in which the project is located. Two copies of this complete application and all other materials provided to the primary lender or lenders, including attachments and exhibits, must be submitted in two separate three-ring notebook binders. Each section, attachment and exhibit must be clearly tabbed so that a reviewer may easily find the necessary materials.

SECTION 1: GENERAL INFORMATION

Funding Applied For. Show how much financing for which you are applying.

Project Name and Location. Show the name and address of the project and provide the other requested information. Also indicate the name of the Neighborhood Business and Development Program "Designated Neighborhood".

Applicant Information. For the sponsor and/or developer of the project, show the entity's name, mailing address, contact person and title, telephone number, facsimile number and e-mail address, if available.

Ownership Entity Information. Show the name, taxpayer's identification number and type of entity that ultimately will be the borrower and own the project. For corporations and controlling general partners, provide the name, taxpayer identification number, percentage of ownership interest for each individual or entity, and identify whether the entity is a nonprofit corporation.

Amenities. Indicate the amenities planned for the development.

Existing Project Information. Indicate the year the building was originally constructed; when the building was last occupied; the number of above-ground floors, and the number that will be used for residential purposes; all prior uses (with dates) and the last use of the building; and whether the rehabilitation will include compliance with historic standards.

Number of Residential Buildings. Show the total number of each type of building included in the project's design.

Total Land Area. Show the total acreage of the project site(s).

Total Building Area. Show the gross square footage of all units in the project.

Anticipated Development Schedule. Show the month and year that each stage of the development has been or is scheduled to be completed. For site control, indicate if the sponsor currently owns the site, and if not whether it has site control, the date control expires, and the expected date the ownership entity will acquire the site. Acceptable forms of site control include deeds, contracts of sale, leases with purchase options, or other forms acceptable to the Department. For zoning, indicate the current zoning. If a change or variance of the zoning is necessary, show the dates of application, final hearing, and final approval. Substantial completion is the date when 95% of the rehabilitation or construction is complete; all certificates of use and occupancy have been issued; and the architect has issued the certificate of substantial completion. Sustaining occupancy is when the project's income is sufficient to cover operating expenses and debt service for six consecutive months.

SECTION 2: DEVELOPMENT TEAM

Development Team Members. For each member of the development team, show the entity's name, mailing address, contact person and title, e-mail address, telephone number and facsimile number.

Development Team History. Answer each question concerning the history or prior performance of the members of the development team. If you answer yes to any of the questions, provide a brief explanation.

SECTION 3: PROJECT INCOME AND EXPENSES

Residential Rental Income. For all residential units in the project, show the number of bedrooms and baths per unit; the number of units of this size and type; the unit size in square feet; the utilities paid by tenants; and the rent actually paid by the tenant. The monthly income is the income per unit multiplied by the number of units of this size and type. Calculate annual income by multiplying the monthly income by 12 months. The total square footage for all units is the sum of the unit size multiplied by the number of units for each size and type. The vacancy allowance is calculated by multiplying the total annual income for the units in the project by an estimated vacancy rate. The vacancy rate is based upon an analysis of similar projects in the market area. Subtract the vacancy allowance from the total annual income to find the effective gross rent.

Residential Ancillary Income. Residential ancillary income includes but is not limited to income from parking, washing machines, and vending machines associated with the residential portion of the project. For all residential ancillary income, show a description of the associated units; size in square feet and/or the number of units (as applicable); and the income generated. The monthly income is the income per unit multiplied by the number of units of this size and type (if applicable). Calculate annual income by multiplying the monthly income by 12 months. The vacancy allowance is calculated by multiplying the total annual residential ancillary income by an estimated vacancy rate that is based upon an analysis of similar projects in the market area. Subtract the vacancy allowance from the total annual income to determine the effective gross income for residential ancillary income.

Commercial Rental Income. Commercial rental income comes from all other nonresidential units. For all commercial rental income in the project, show a description of the income type; unit size in square feet and/or the number of units (as applicable); and the income generated. The annual income is the income per unit multiplied by the number of units of this size and type (if applicable). Calculate monthly income by dividing the annual income by 12 months. The vacancy allowance is calculated by multiplying the total annual commercial rental income by an estimated vacancy rate that is based upon an analysis of similar projects in the market area. Subtract the vacancy allowance from the total annual income to determine the effective gross income for commercial rental income.

Commercial Ancillary Income. Commercial ancillary income includes but is not limited to parking and vending machines associated with the commercial portion of the project. For all commercial ancillary income in the project, show a description of the associated units, size, in square feet and/or the number of units (as applicable) and the income generated. The annual income is the income per unit multiplied by the number of units of this size and type (if applicable). Calculate monthly income by dividing the annual income by 12 months. The vacancy allowance is calculated by multiplying the total annual commercial ancillary income by an estimated vacancy rate that is based upon an analysis of similar projects in the market area. Subtract the vacancy allowance from the total annual income to determine the effective gross income for commercial ancillary income.

Effective Gross Income. This is the sum of the effective gross income for all income producing units and spaces in the project.

Non-income Producing Units. For all community and common spaces included in the project, show the number of units (if applicable) and the square footage of each type of space. The total square footage for all units is the sum of the unit size multiplied by the number of units for each size and type.

Tenant Paid Utilities and Charges. If tenants will pay monthly utilities or charges, show the type of utilities and charges.

Annual Project Expense Projections. Fill in the annual expenses estimated for each type listed that is applicable to the project for both residential and commercial space. A management fee is calculated by multiplying the effective gross income for all units and spaces in the project by an annual percentage rate. Utility expenses include only those items paid by the owner and should not include tenant paid utilities. If the local government is providing a Payment in Lieu of Taxes (PILOT) agreement, show: the total estimated value of the PILOT; the number of years it will be provided; and the annual payment amount under the agreement.

Total Operating Expenses. This is the sum of total administrative expenses, total utility expenses, total operating and maintenance expenses, total taxes and insurance, and reserve for replacement deposits.

Net Operating Income. Calculate the project's net operating income by subtracting the total operating expenses from the effective gross income for all units and spaces.

SECTION 4: SOURCES AND USES OF FUNDS

Uses of Funds. Fill in the total estimated cost for each use of funds listed that is applicable to the project. Indicate the total residential costs and total commercial costs. If costs cannot be easily separated into commercial and residential categories (such as Financing Charges) prorate the amounts based on square footage.

Construction or Rehabilitation Costs. Net construction costs, from Exhibit N, are construction costs that do not include a builder's general overhead, builder's profit, general overhead, bond premium, construction contingency or other fees. For the builder's general overhead, builder's profit and general requirements, show the applicable percentage of net construction costs. Builder's General Overhead may range from 2% to 3% of net construction costs. The builder's profit may range from 5% to 10% of net construction costs based on the contract size. General Requirements may range from 5% to 10% of net construction costs. Bond premiums include the actual premium paid for performance and payment bonds, or the actual cost paid to a lending institution for letters of credit to assure construction completion.

A construction contingency of up to 10% of the total construction contract is required to fund unforeseen construction cost overruns.

Fees Related to Construction and Rehabilitation. For the architect's design and supervision fees, show the applicable percentage of the total construction contract. DHCD permits an architect's design fee of 2% to 5% of the total construction contract. The architect's supervision fee may range from 1% to 3% of the total construction contract. Real estate attorney legal fees directly related to closing the loans are eligible. Legal fees related to syndication must be included under syndication related costs. For consultant fees, indicate the percentage of total development costs. If a developer's fee is paid from syndication proceeds, the consultant's fee must be paid from the maximum allowable developer's fee. Marketing costs must be supported by a budget and must be acceptable to DHCD.

Financing Fees and Charges. Construction interest is calculated on the funds disbursed during the construction loan period based on a projected monthly draw schedule. Mortgage insurance premium is the premium charged for mortgage insurance during the construction loan period only. Title and recording costs are as estimated by the title attorney. A financing (soft cost) contingency may not exceed 1% of total development costs to cover unanticipated interest and financing costs. The DHCD administrative fee is 1.5% of the Department's loan. DHCD's closing fee is $15,000.

Acquisition Costs. For the purpose of calculating the financing gap and the Office and Commercial Space Conversion Initiative loan amount, the budget should contain a purchase price for the land and building. The purchase price may not be greater than the amount shown in the appraisal submitted to the primary lender. If no appraisal was submitted to the primary lender, a third party appraisal that reflects the market value of the land and buildings, derived from the capitalized value, the replacement value, and the comparable sales value of the property, must be submitted. Appraisals should not be made on an investment value basis.

Total Development Costs. This is the sum of total construction costs, total fees, total financing fees and charges and total acquisition costs.

Developer's Fee. The allowable developer's fee is limited to 10% of the residential portion of the total development costs, which excludes the developer fee, syndication related costs, guaranties and reserves. For purposes of calculating the gap loan amount for the project, no developer's fee will be considered on any commercial portion of the project.

Syndication Related Costs. These are costs incurred when syndicating a project with historic tax credits. Syndication related costs cannot be paid with Department loan proceeds.

Guarantees and Reserves. Guarantees and reserves should include only funded amounts required by lenders or syndication firms, and cannot be funded with Departmental loan proceeds.

Total Uses of Funds. This is the sum of total development costs, developer's fee, total syndication related costs, and total guarantees and reserves.

Debt Service Financing. For all must pay debt, indicate the source of funds; the name of the bond issuer and/or lender; the debt coverage ratio; the total annual payment; the interest rate; the amortization period of the loan; the actual loan term; the loan to value ratio; and the maximum supported loan amount. Also, show the annual payment associated with any credit enhancement.

Cash Flow Financing. For all loans that will be repaid from cash flow, show the source of funds; the name of the lender; the percentage of cash flow that will be applied to payments due on the loan; the anticipated annual payment; the interest rate; the loan term; and the loan amount.

Program Loan Amount. Calculate the maximum loan amount from the Office and Commercial Space Conversion Initiative on the table at the bottom of the page. The funds may not exceed the lesser of $1 million or 20% of the total uses of funds for the residential portion of the project.

Total Debt. Add the total loan amounts for the cash flow loans and the total maximum mortgage amounts for the debt service financing to determine the total debt.

Equity. Indicate the equity proceeds generated from the sale of historic tax credits or other syndication of the project. Also, identify the developer's equity which is not from syndication proceeds. The Department requires that equity be sufficient to cover the syndication related costs, the developer's fee and 10% of total development costs (excluding the syndication related costs, the fee and any guaranties or reserves). The costs are detailed in Section 4 of this application.

Total Sources of Funds. The total sources of funds is the sum of the total financing and the total equity and must equal the total uses of funds.

Maximum Office Space Conversion Loan Amount. The maximum loan amount is calculated on a gap basis. Subtract the total debt service maximum mortgage amount, the amount of any other cash flow loan, the amount of any grant, historic tax credit syndication proceeds and the equity contribution requirement from the project's total development costs. The loan amount may not exceed the lesser of $1 million or 20% of the total uses of funds for the residential portion of the project.

SECTION 5: PROJECT SUMMARY INFORMATION

General Information. Provide the project information, funding sought and occupancy restrictions of the project from Section 1.

Project Income. Indicate total units, annual income and vacancy rates for the residential rental units, residential ancillary space, commercial rental units, and commercial ancillary space from Section 3. The years until sustaining occupancy are the number of years between the application submission date and the estimated date of sustaining occupancy shown in the anticipated development schedule in Section 1. For the annual trending, fill in the estimated annual increase in rents. The trend can be based upon experience with similar projects or determined in a market study. Calculate the trended income (at the time of sustaining occupancy) by multiplying the annual income by the sum of the years until sustaining occupancy and annual trending rate and adding this result to the annual income. Calculate the vacancy allowance by multiplying this result by the vacancy rate. These are the figures to be entered into the first year of the 20-year operating pro forma in Section 6.

Project Expenses and Cash Flow. Fill in the annual expense for each project expense category from Section 3. For administrative, utility, operating maintenance, and taxes and insurance, indicate the number of years until sustaining occupancy and the annual trending rate. The management fee and reserve for replacement are not trended. The other expenses are trended by multiplying the annual expense by the sum of the years until sustaining occupancy and annual trending rate and adding this result to the annual expenses.

Sources and Uses of Funds. Enter the summary information from Section 4.

Local Contribution. Indicate the form and amount of the local contribution.

Project Description. Enter the project description from Section 1.

SECTION 6: 20-YEAR OPERATING PRO FORMA

Income. Enter the trended amounts into year one from the project income table in Section 5. Each year after that, the annual income for the residential rental units, the residential ancillary space, the commercial units and the commercial ancillary space should be trended forward by the rate shown in Section 5. Multiply the previous year's income by the trending rate and add it to the previous year's annual income. The vacancy allowance is the product of the vacancy rate times the gross income for each type of income.

Expenses. The trended expenses shown on the project expenses and cash flow table in Section 5 are to be entered into year one. The management fee and replacement reserve are not to be trended. The management fee is the percentage of gross project income. Other expenses are trended annually by multiplying the previous year's expenses by the trending rate and adding it to the previous year's expenses.   The trended net operating income is calculated by subtracting the trended expenses from the trended effective gross income.

Debt Service Financing. Annual debt service payments are entered for each year from the debt service financing table in Section 5.

Cash Flow Financing. Annual cash flow payments are calculated for each year by multiplying the cash flow by the percentage of cash flow for payment rate shown in the cash flow financing table in Section 5. The remaining cash flow is calculated by deducting debt service and cash flow payments from the trended net operating income.